

To my fellow directors of Tagnetics 12/16/2018

I'm writing to the Board of Directors of Tagnetics because of the current dire situation of Tagnetics, because the Board has taken no action to rectify the situation, and to give my final report to the Board prior to my resignation as Chief Technical Officer.

Revenues have declined every year over the last five years and the prospects for next year are limited to what Tagnetics will be paid to uninstall the last 18 stores at Whole Foods. After that, there is no revenue on the horizon. We've lost all of our employees, the principal capital of any company. We have no patent coverage on the new products that have been developed. Our key patents have either expired or lapsed because we haven't made the payments. We have also lost the licenses from Northern Illinois University and NCR. The products which have been developed are basically not demonstrable because of the loss of the employees, the documentation that supports them, and the loss of sole source vendors due to the failure to pay our bills. Our prospects are grim. Our key customer was Whole Foods. That business has been lost. Tagnetics has no CFO, only an accountant who works directly for John and does not answer to the Board. We don't have a corporate attorney due to the nonpayment of Mitch Goldsmith. Our offices in both Roanoke and Ohio have been closed. As I stated previously, we have no employees while we have a large liability for unpaid salary. We have no money in the bank. We've been consistently overdrawn. We have no private placement memorandum which is up to date and no credible story to create one to allow us to raise money. We have no directors and officers insurance.

We have had several key opportunities over the last five years which have been mismanaged. In 2013 Whole Foods notified us that they would no longer be installing any new stores until we had an updated product. In response to that, Ron Early and I developed a product specifically to maintain the Whole Foods business which was the segmented tag which the Board had been shown. That product was ready to go to pilot at Whole Foods at the end of 2013. The production was never funded; the explanation from John White was that we don't



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care about Whole Foods because we're not a shelf tag company. Consequently, the revenues from Whole Foods have been exclusively replacement parts and maintenance contracts over the last several years and, starting in 2016, uninstalling the stores due to the lack of our ever producing a new product for them. We have consequently lost Whole Foods as a customer and, given their acquisition by Amazon, we have lost a phenomenal opportunity to have Amazon as one of our customers. Over several years the loss of revenue due to the mismanagement of the Whole Foods customer relationship cost the company 30 million dollars in revenue and an unknown amount of revenue after the acquisition by Amazon.

The second large opportunity that was lost was Walgreens. Walgreens had worked with Tagnetics for several years to develop a tag that was exactly what they wanted. By the fourth quarter of 2014 we had a prototype system of the Walgreens product ready to go in to pilot production. As Tagnetics was unable to raise the money to fund this project, I brought to the Board a proposal from Jabel Manufacturing that would not only fund the completion of the engineering aspects of the product, but would also fund the pilot at Walgreens and set up a production facility for Tagnetics, with a total investment of five million dollars for which they required no stock. The only requirement was that they be our manufacturer for a modest bit of time with the proviso that they always provide the lowest cost product and the guaranteed price that would make us profitable. I presented that to the Board in August of 2014 and nothing happened and the Board didn't even ask what was happening with it. We've consequently never produced a product for Walgreens and have lost a billion dollar opportunity. The only requirement that Jabel had in order to make this five million dollar investment was to sit in on one meeting that Tagnetics routinely had with Walgreens without even planning to say anything in that meeting. They just wanted to see that Walgreens was excited about getting the product. That never happened. All we had to do was execute and we would have a billion dollar valuation today. Management has now changed at Walgreens. Resurrecting the opportunity would be difficult if not impossible due to our lack of performance.

Our third major opportunity was our partnership with Panasonic NA. While several directors expressed some dissatisfaction with the agreement, they were a life line when Tagnetics needed one. This partnership was sabotaged by a lack of cooperation and honesty by Tagnetics and an unrealistic view of our valuation. In a conversation I had with the chief counsel of Panasonic NA after they terminated the agreement, I was told that Panasonic was willing to invest \$25,000,000 for minority position but was unwilling to deal with John White or Chris Feiss. I conveyed this message to a few board members but got no support to take any action.

As to the recent announcement by John White of a joint venture with SES, It's a great story. Quite similar to the many great stories we've heard from JW over five years that have distracted the BOD from doing its job. None have generated any significant revenue but delayed solving the real issues. One problem with this story, it implies we are sharing proprietary information about our potential customers and technology with the main competitor in the ESL market. ESLs are the only proprietary product that Tagnetics has capable of generating enough revenue to make us successful. While this deal may benefit JW, it will only harm Tagnetics.

Tagnetics has operated over the last five years without a plan, without a budget, without goals, without direction, without ethics, without new revenue, and a lack of oversight by a BOD that has ignored its duty under Delaware law.

I resign as a director of Tagnetics effective immediately. I will resign as CTO on 1/1/2019 in line with the terms of my employment contract due to Tagnetics' violation of the terms of the contract. If the board decides to take corrective action, please contact me prior to 12/31/2018 at my home number 540-384-6199 or by email. Because Tagnetics is insolvent, corrective action must include coming to some agreement with the creditors including the employees who are owed salary. If I do not hear from the BOD, I will join the other creditors in a coordinated legal action.

Dr. Kenneth W. Kayser